

CITY COUNCIL REPORT

DATE: January 29, 2020

TO: Honorable Mayor and City Council

FROM: Jennifer Mikelson, Housing Analyst

THROUGH: Dan Folke, Community Development Director

CC: Greg Clifton, Shane Dille, Sarah Darr, Justyna Costa

SUBJECT: Scattered Sites Workforce Housing Project - Status Update

Background:

On March 6, 2018 the City Council adopted Ordinance 2018-06, which approved a purchase and sale agreement with Brinshore Development LLC for the purchase of three city parcels for the purpose of the construction of 74 affordable rental units as part of a scattered sites project. Per the purchase agreement, Brinshore had 36 months after opening of escrow to obtain an award of Low Income Housing Tax Credits (LIHTC), and with the City Manager's consent could receive an additional one year extension toward that effort

In June 2018, Brinshore received an award of 9% tax credits from the Arizona Department of Housing (ADOH). Staff coordinated with Brinshore on all necessary permits and approvals throughout 2018 and 2019 to prepare for construction.

In August 2019, Brinshore informed staff that it had a \$1-2M funding gap and requested a financial contribution from the City. The City declined Brinshore's request. The funding gap was addressed by Brinshore via other means, however, by this point in time their lender and investor partners could no longer support the project due to concerns about the ability to place the units in service by the December 31, 2020 deadline required by ADOH. This situation was detailed by Brinshore in a September 20, 2019 letter to Council, at which time the tax credits were returned to the State. Brinshore stated in their letter it was possible to reapply in the 2020 cycle and recommended that they retain site control to allow them to do so.

At the time Brinshore surrendered the awarded tax credits, the draft Qualified Allocation Plan (QAP) had been published by ADOH. The draft did not allow for scattered site development utilizing the competitive tax credits, except for projects on tribal land. Staff submitted multiple comments during the public QAP process detailing why scattered site projects should be allowed, especially in rural and land locked areas. When the final 2020 QAP was released on December 19, 2019, unfortunately, the exclusion of scattered site projects remained in the document. This change removed any likelihood that Brinshore's scattered site project could be funded through LIHTC in the 2020 cycle. It is possible this restriction could be lifted in a future QAP.

Given the inability for Brinshore to re-apply in 2020, there is no reason for Council to consider the request to allow a time extension of the current contract.

While escrow was opened, closing on the properties was not to take place until all the financing was in place. As the financing never finalized, ownership of the properties did not transfer, and the City of Flagstaff still owns all three sites.

As a side note, Brinshore was successful in obtaining a 2019 LIHTC award for a property located off of Fort Valley Road / 180. While the City of Flagstaff is not a partner to this development, we are aware that it is moving forward at this point in time.

Discussion:

The reason for this Council Report is to provide an update as to why this project will not be moving forward. Housing staff will be including the three scattered site parcels, along with other City owned parcels as discussed by Council, as part of the upcoming Co-Developer RSOQ process for the repositioning of the public housing portfolio.

Recommendation / Conclusion:

This City Council Report is for information only.